

City of Detroit

CITY COUNCIL

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ANNE MARIE LANGAN
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(313) 224-1078

TO: Curtis Hertel, Executive Director
Detroit/Wayne County Port Authority

FROM: Irvin Corley, Jr., Fiscal Analysis Director

DATE: May 4, 2009

RE: 2009-2010 Budget Analysis

24.

Attached is our budget analysis regarding your department's budget for the upcoming 2009-2010 Fiscal Year.

Please be prepared to respond to the issues/questions raised in our analysis during your scheduled hearing on **Thursday, May 7, 2009 at 10:30 a.m.** We would then appreciate a written response to the issues/questions at your earliest convenience subsequent to your budget hearing. Please forward a copy of your responses to the Councilmembers and the City Clerk's Office.

Please contact us if you have any questions regarding our budget analysis.

Thank you for your cooperation in this matter.

IC:ss

Attachment

cc: Councilmembers
Council Divisions
Auditor General
Joseph Harris, Finance Director
Pamela Scales, Budget Director
Renee Short, Budget Manager
Arese Robinson, Mayor's Office

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Port Authority / Non-Departmental (35)

FY 2009-2010 Budget Analysis by the Fiscal Analysis Division

Summary

In 1925, the legislature passed Public Act 234, the Port Districts Act, authorizing the creation of Port Districts to spearhead the coordination of regional maritime activities. In 1933, the Detroit Wayne County Port District was established with jurisdiction over the waters and shoreline of Wayne County. As more development began to take place, a stronger need for concentration on port activities arose, resulting in the establishment of the Detroit/Wayne County Port Authority in 1978 through Public Act 639 of 1978.

The first organizational board meeting was held October 10, 1980 and Henry Ford, II served as the first chairman of the Detroit/Wayne County Port Authority board of directors.

The Port Authority has a five-member board of directors with one member appointed by the State of Michigan, two by Wayne County and two by the City of Detroit. Funding for the Port Authority is provided by the State of Michigan, Wayne County and the City of Detroit. Greater Detroit Foreign Trade Zone, Inc. is funded through fees paid by the foreign trade zone general-purpose zones and subzones. The Greater Detroit Foreign Trade Zone, Inc. is a separate non-profit Michigan corporation administered by the Port Authority.

Funding the Operating Budget of the Port Authority

- The Act provides language that sets in place how funding for operations will occur. After the authority submits a detailed budget estimate to the governing bodies of the government units, the state shall provide 50% of the operating budget and the other 50% shall be funded equally by the participating county and city. The Act also has language to provide for the authority to return any surplus funds after a fiscal year ends.

In the current fiscal year the state provided \$500,000, the county provided \$315,000 and the city funded \$250,000. These are the same requests for the 2009-2010 fiscal year.

The exact language from the act is as follows:

120.124 Operating budget.

Sec. 24. (1) The authority shall submit in writing a detailed estimate of the budget required for the business and conduct of an authority's affairs, initially, for a 2-year period, and annually thereafter to the governing bodies of its constituent units, the department of commerce, and the department of state

highways and transportation for approval. The state shall provide 50% of the operating budget of the authority, to be included in the department of state highways and transportation budget which shall be subject to legislative approval. Fifty percent of the operating budget of an authority in which not more than 1 county and not more than 1 city participate shall be funded equally by the participating county and city.

(2) A city or county creating or participating in an authority may appropriate for the use of the authority, and include in its levy for general fund purposes, an amount considered proper. However, the total amount permitted by law to be levied by a city or county for general fund purposes shall not be considered increased by this section.

(3) As used in this section, "operating budget" means solely operation and maintenance expenses of an authority not included in the cost of a specific project, and interest on notes, but excludes amounts for debt service on bonds and amounts for acquisition, construction, enlargement, improvement, or extension of port facilities.

120.125 Surplus of unencumbered funds; disposition.

Sec. 25. If at the end of a fiscal year a surplus of unencumbered funds remains after providing for the operating expenses of an authority, the authority may pay that surplus into the general funds of the state and of its constituent units in the same proportion which the appropriations made by each to the authority bear to each other.

- The Act also allows the authority to issue revenue bonds so as to provide funds for paying for port facilities or for paying for any improvements of projects under the control of the authority. These bonds are not considered debt of the state or the other constituent unit, but shall be paid solely from the revenue or income to be derived from the projects. There are some instances that bonds may be sold and the state and other constituent units may agree to provide reimbursement of those bonds.

The exact language from the act is as follows:

120.114 Revenue bonds; applicability of revenue bond act; revenue bonds payable solely from revenues or income.

Sec. 14. (1) An authority may provide by resolution for the issuance of revenue bonds of the authority for the purpose of providing funds for paying the cost of port facilities, or for paying the cost of an extension, enlargement, or improvement of a project then under the control of the authority. The bonds issued under this section shall mature at a time or times, not exceeding 40 years after their date of issuance, as the authority may provide.

(2) Revenue bonds issued under this section are subject to the revenue bond act of 1933, 1933 PA 94, MCL 141.101 to 141.140.

(3) Revenue bonds issued pursuant to this section shall not be considered to constitute a debt of this state, a political subdivision of this state, the authority, or any constituent unit, or a pledge of the faith and credit of this state or a political subdivision of this state or of the authority or any constituent unit, but shall be payable solely from the revenues or income to be derived from the projects. The revenue bonds shall contain on their face a statement to the effect that the bonds and attached coupons are payable solely from revenues and are not a general obligation of this state, a political subdivision of this state, the authority, or a constituent unit, and neither the faith and credit nor the taxing power of this state, a political subdivision of this state, the authority, or a constituent unit, is pledged to the payment of the principal of or the interest on the bonds.

120.118 Additional bonds for acquisition of port facilities; authorization; resolution; issuance and execution of bonds; seal; negotiable instruments; maturities; payment; tax exemption; issuance of bonds or notes subject to revised municipal finance act.

Sec. 18. (1) In addition to the bonds authorized in section 14, bonds may be issued for the purpose of acquiring port facilities, as follows:

(a) By the issuance of bonds in anticipation of payments to become due under contracts by which 1 or more constituent units agree to pay to an authority operating under this act certain sums toward the cost of the acquisition, improvement, enlargement, or extension of a project that may be made under this act. Contracts are not subject to the revised municipal finance act, 2001 PA 34, MCL 141.2101 to 141.2821.

(b) By money advanced by an authority operating under this act under agreements with a constituent unit or other municipality for the repayment of the money.

(c) By money advanced, from time to time, before or during construction of a project, by a public corporation, for which an authority operating under this act shall reimburse the corporation with interest not to exceed 8% per annum or without interest as may be agreed, when funds are available for reimbursement. The obligation of an authority to make the reimbursement may be evidenced by a contract or note, which contract or note may be made payable out of the payments to be made by constituent units under contracts made pursuant to subdivision (b), or out of the proceeds of bonds issued pursuant to this act by the county or out of any other available funds.

(2) Bonds issued under this section shall be authorized by a resolution adopted by the authority. The bonds shall be issued in the name of the authority and shall be executed by the chairperson and secretary-treasurer of the authority,

who shall also cause their facsimile signatures to be affixed to the interest coupons to be attached to the bonds. The authority shall adopt a seal that shall be affixed to the bonds. Bonds issued under this section shall be negotiable instruments and shall mature not more than 40 years after the date of issuance. The bonds and coupons shall be made payable in lawful money of the United States and shall be exempt from all taxation whatsoever by this state or by any taxing authority within this state.

(3) Bonds or notes issued under this section are subject to the revised municipal finance act, 2001 PA 34, MCL 141.2101 to 141.2821.

Issues and Questions

Attached are the most recent audited financial and annual community reports.

1. What is the timeline for the Port Authority Public Dock and office project?
2. For whose use did the Department of Homeland Security grant funds of \$1.024 million to the Port Authority to purchase patrol boats? Is this \$1.024 million part of the awarded \$1.6 million that is mentioned on page 3 of the financials? What were the other funds used for?
3. If the EPA has awarded \$800,000 three years in a row for environmental site investigations, why is the actual revenue realized \$195,138 for 2008 and \$328,524 for 2007? Are the remaining funds to be used?
4. For what reasons did the county choose to give the port authority \$65,000 over what is required by state law in 2008?

Attachments

DETROIT/WAYNE COUNTY
PORT AUTHORITY

FINANCIAL STATEMENTS

September 30, 2008 and 2007

DETROIT/WAYNE COUNTY PORT AUTHORITY

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INDEPENDENT AUDITORS' REPORT

February 10, 2009

To the Board of Directors
Detroit/Wayne County Port Authority
Detroit, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Detroit/Wayne County Port Authority (the "Authority") as of, and for the years ended, September 30, 2008 and 2007, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of September 30, 2008 and 2007, and the respective changes in financial position thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated February 10, 2009, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Directors
Detroit/Wayne County Port Authority
February 10, 2009
Page Two

INDEPENDENT AUDITORS' REPORT (CONTINUED)

The accompanying management's discussion and analysis and schedules of revenue and expenditures - budget and actual (operating fund) are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.


CERTIFIED PUBLIC ACCOUNTANTS

DETROIT/WAYNE COUNTY PORT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

September 30, 2008 and 2007

This section of the annual report of the Detroit/Wayne County Port Authority (the "Authority") presents management's discussion and analysis of the Authority's financial performance during the fiscal years that ended on September 30, 2008 and 2007. Please read it in conjunction with the Authority's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

The fiscal year ended September 30, 2008 was a period of continuous operational and financial improvements. During the year, revenue increased by 23.2 percent and program expenses increased by .6 percent. As a result, net assets increased by approximately \$456,900.

Key successes for the Authority this past year include the following:

- A \$1,600,000 grant was received from the Department of Homeland Security during the year ended September 30, 2008, following grants received in the amounts of \$1,417,000 and \$1,366,000 during the years ended September 30, 2007 and 2006, respectively.
- An \$800,000 Environmental Protection Agency Brownfield grant for environmental site investigations within the Port of Detroit district was received, which is the third straight year such an award was received, for a total to date of \$2,400,000.
- The restart of the Port of Detroit completed its third full season.
- Construction of the new public dock and terminal continued.
- During 2008, the Authority received a \$2,000,000 federal appropriation and a \$500,000 match from the Michigan Department of Transportation ("MDOT"), along with a \$1,000,000 federal enhancement grant with a \$250,000 MDOT match. There is also a \$750,000 federal non-motorized improvement grant through the City of Detroit with a \$175,000 MDOT match.
- A \$50,000 grant was received from the U.S. Department of Commerce.
- A \$30,000 coastal zone management grant from the Michigan Department of Environmental Quality was received for the planning of a new Great Lakes environmental monitoring and interpretive center.
- A \$50,000 grant was received from the DTE Energy Foundation.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

September 30, 2008 and 2007

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report contains two types of financial statements. The statements of net assets and statements of activities (which are presented on pages 8 and 9) are considered government-wide financial statements. The balance sheets and statements of revenue, expenditures, and fund balances for governmental funds (which are presented on pages 10 and 12) are considered fund financial statements. A further discussion of each type of statement follows.

Government-wide Financial Statements

The government-wide financial statements report information about the Authority as a whole using accounting methods similar to those used by private-sector companies and non-profit organizations. The statements of net assets include all of the Authority's assets and liabilities. All of the current year's revenue and expenses are accounted for in the statements of activities, regardless of when cash is received or paid.

The two government-wide financial statements report the Authority's net assets and how they have changed. Net assets represent the difference between the Authority's assets and liabilities, and they represent one way to measure the Authority's financial health, or position. Over time, increases or decreases in the Authority's net assets are an indicator of whether its financial health is improving or deteriorating.

Fund Financial Statements

The fund financial statements provide more detailed information about the Authority's funds, not the Authority as a whole. Funds are accounting devices that the Authority uses to keep track of specific sources of funding and spending for particular purposes.

Most of the Authority's activities are included in governmental funds, which focus on how cash, and other financial assets that can be readily converted to cash, flow in and out, and show the balances left at the end of the year that are available for spending. As such, the fund financial statements provide a detailed short-term view that shows whether there are more or fewer financial resources that can be spent in the near future to finance the Authority's programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, additional information is provided on pages 11 and 13 that explains the relationship between the fund financial statements and the government-wide financial statements.

The notes to the financial statements, which begin on page 14, explain some of the information in the financial statements and provide more detailed data. A comparison of the Authority's operating fund revenue and expenditures to its budget is provided on page 25.

DETROIT/WAYNE COUNTY PORT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

September 30, 2008 and 2007

FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE

Table 1 reflects the condensed statements of net assets as of September 30, 2008, 2007, and 2006:

Table 1

Statements of Net Assets

September 30, 2008, 2007, and 2006

(in thousands of dollars)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Assets:			
Cash	\$ 625.2	\$ 472.3	\$ 522.2
Accounts receivable	182.9	191.5	189.3
Capital assets	5,436.6	4,763.9	4,786.8
Other assets	29.8	30.5	26.3
Total Assets	<u>6,274.5</u>	<u>5,458.2</u>	<u>5,524.6</u>
Liabilities:			
Long-term liabilities	1,951.4	1,969.5	1,990.1
Other liabilities	667.9	290.4	324.3
Total Liabilities	<u>2,619.3</u>	<u>2,259.9</u>	<u>2,314.4</u>
Net Assets:			
Invested in capital assets, net of related debt	3,358.9	2,692.4	2,703.1
Unrestricted	296.3	505.9	507.1
Total Net Assets	<u>\$ 3,655.2</u>	<u>\$ 3,198.3</u>	<u>\$ 3,210.2</u>

Accounts receivable balances are reviewed for collectibility and are written off as necessary. As of September 30, 2008, 2007, and 2006, no allowance was considered necessary. Capital assets include the acquisition of the 35-acre Port of Detroit marine cargo terminal and public dock land.

DETROIT/WAYNE COUNTY PORT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

September 30, 2008 and 2007

FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE (CONTINUED)

Table 2 reflects the condensed statements of activities for the years ended September 30, 2008, 2007, and 2006:

Table 2
Statements of Activities
For the Years Ended September 30, 2008, 2007, and 2006
(in thousands of dollars)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Revenue:			
Program revenue:			
Contracts and grants	\$ 2,350.8	\$ 1,766.2	\$ 2,164.2
Other program revenue	25.0	25.0	125.0
General revenue:			
Administrative revenue	168.0	168.0	173.6
Other revenue	8.5	112.3	123.9
Total Revenue	2,552.3	2,071.5	2,586.7
Expenses:			
Import and export promotional programs	2,095.4	2,083.4	2,731.3
Net Increase (Decrease) in Net Assets	456.9	(11.9)	(144.6)
Net Assets, Beginning of Year	3,198.3	3,210.2	3,354.8
Net Assets, End of Year	\$ 3,655.2	\$ 3,198.3	\$ 3,210.2

Grant revenue increased significantly due to an increase in federal highway grant revenue for the public dock and terminal; this increase was combined with an increase in the Brownfield grant.

The Authority will use future proceeds from its Tea-21 grant, additional federal grants, and future State of Michigan matches to construct a new public dock and terminal facility to further waterfront development and tourism. This project is under construction, is planned for completion in late 2009, and will further increase the Authority's waterfront presence.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

September 30, 2008 and 2007

ECONOMIC FACTORS

The Board of Directors and management have worked diligently to improve the financial position of the Authority and to implement plans and projects that will reduce the Authority's dependency on tax-based funding to meet administrative expenses. Under the Port of Detroit project, the Authority acquired the Detroit Marine Terminals property at the foot of Clark Street and Jefferson in Detroit and entered into an operating agreement with a new company in July 2005. In the project's first three years of operation, the Port of Detroit has returned to historical levels. This milestone to implement those plans and projects will substantially increase revenue to the Authority, promote economic development in the port district, and greatly improve commerce within the region.

The site for the new Public Dock and Terminal Facility was chosen to be a part of the new Riverwalk Conservancy, adjacent to General Motors' World Headquarters at the foot of Bates Street. Possession of the project parcel was taken in August 2004, and construction began in November 2005. The project is scheduled for completion in late 2009 so that it will be available for the 2010 Great Lakes cruise ship season. This project will greatly promote tourism in southeast Michigan and have a very significant economic impact on the region. The Authority plans on moving its offices into the new Terminal Facility and reducing administrative expenses by terminating its current office lease.

The Authority has prioritized waterfront economic development and is using its legislatively enabled powers to aggressively seek grant monies from federal and state agencies to fund all categories of projects, promoting commerce, tourism, and environmental stewardship. This coming year, the Authority will receive and spend more than \$10 million in grant monies that have been awarded for projects along the Detroit waterfront.

Presently, all of the projects that will have a significant economic impact for the Authority are in the implementation stages, and the full benefits will not be fully realized in the immediate future. The current economic downturn will likely affect cargo terminal revenue in 2009. The dependency of the Authority on continued tax-based funding for its administrative function is critical to the ongoing success of the Authority. Any significant reductions in the funding level of the Authority will result in a reduction of program services and the demonstrated benefits those projects and services provide.

FINANCIAL CONTACT

This financial report is designed to present its users with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Chief Financial Officer's office of the Detroit/Wayne County Port Authority at 8109 East Jefferson, Detroit, Michigan 48214.

DETROIT/WAYNE COUNTY PORT AUTHORITY

STATEMENTS OF NET ASSETS

September 30, 2008 and 2007

	<u>Governmental Activities</u>	
	<u>2008</u>	<u>2007</u>
Assets:		
Cash	\$ 625,225	\$ 472,287
Accounts receivable (no allowance considered necessary)	182,916	191,501
Prepaid expenses	16,773	17,464
Deposits	13,000	13,000
Capital assets (Note C):		
Nondepreciable capital assets	4,596,381	3,976,940
Depreciable capital assets, net	<u>840,232</u>	<u>787,002</u>
Total Assets	<u>6,274,527</u>	<u>5,458,194</u>
Liabilities:		
Accounts payable	102,370	106,443
Accrued expenses	439,185	81,918
Long-term liabilities (Note D):		
Due or expected to be paid within one year	126,317	102,099
Due or expected to be paid in more than one year	<u>1,951,426</u>	<u>1,969,450</u>
Total Liabilities	<u>2,619,298</u>	<u>2,259,910</u>
Net Assets:		
Invested in capital assets, net of related debt	3,358,870	2,692,393
Unrestricted	<u>296,359</u>	<u>505,891</u>
Total Net Assets	<u>\$ 3,655,229</u>	<u>\$ 3,198,284</u>

See notes to financial statements.

DETROIT/WAYNE COUNTY PORT AUTHORITY

STATEMENTS OF ACTIVITIES

For the Years Ended September 30, 2008 and 2007

	Governmental Activities	
	2007	2006
Expenses:		
Import and export promotional programs:		
Salaries, wages, and employee benefits	\$ 934,190	\$ 878,501
Contractual and professional services	35,535	55,592
Facility operations and maintenance	68,071	86,916
Office expenses	80,795	94,368
Site reclamation and redevelopment	558,662	521,756
Travel and automotive expenses	130,467	138,976
Conferences, dues, and subscriptions	77,743	67,587
Marketing and promotion	56,978	51,135
Interest expense	128,361	162,158
Depreciation (Note C)	24,627	26,440
Total Program Expenses	2,095,429	2,083,429
Program Revenue:		
Contracts and grants (Note F)	2,350,807	1,766,171
Project development and administration	25,000	25,000
Total Program Revenue	2,375,807	1,791,171
Net Program Revenue (Expense)	280,378	(292,258)
General Revenue:		
Administrative revenue (Note B)	168,000	168,000
Interest income	8,561	18,067
Miscellaneous income	6	94,312
Total General Revenue	176,567	280,379
Net Increase (Decrease) in Net Assets	456,945	(11,879)
Net Assets, Beginning of Year	3,198,284	3,210,163
Net Assets, End of Year	\$ 3,655,229	\$ 3,198,284

See notes to financial statements.

DETROIT/WAYNE COUNTY PORT AUTHORITY

BALANCE SHEETS - GOVERNMENTAL FUNDS

September 30, 2008 and 2007

	<u>Operating Fund</u>	
	<u>2008</u>	<u>2007</u>
ASSETS		
Cash	\$ 625,225	\$ 472,287
Accounts receivable (no allowance considered necessary)	182,916	191,501
Prepaid expenditures	16,773	17,464
Deposits	<u>13,000</u>	<u>13,000</u>
Total Assets	<u>\$ 837,914</u>	<u>\$ 694,252</u>
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable	\$ 102,370	\$ 106,443
Accrued expenses	<u>365,763</u>	<u>15,239</u>
Total Liabilities	468,133	121,682
Fund Balance:		
Unreserved	<u>369,781</u>	<u>572,570</u>
Total Liabilities and Fund Balance	<u>\$ 837,914</u>	<u>\$ 694,252</u>

See notes to financial statements.

DETROIT/WAYNE COUNTY PORT AUTHORITY

**RECONCILIATIONS OF GOVERNMENTAL FUNDS BALANCE SHEETS TO
STATEMENTS OF NET ASSETS**

September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Total Fund Balance, Governmental Funds	\$ 369,781	\$ 572,570
Amounts reported for governmental activities in the statements of net assets differ from amounts reported in the governmental funds balance sheets due to the following:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. These assets consist of the following:		
Nondepreciable capital assets	4,596,381	3,976,940
Depreciable capital assets:		
Cost	1,006,201	928,344
Less: Accumulated depreciation	(165,969)	(141,342)
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the funds. These liabilities consist of the following:		
Note payable	(2,077,743)	(2,071,549)
Accrued payroll	<u>(73,422)</u>	<u>(66,679)</u>
Total Net Assets, Governmental Activities	<u>\$ 3,655,229</u>	<u>\$ 3,198,284</u>

See notes to financial statements.

DETROIT/WAYNE COUNTY PORT AUTHORITY

**STATEMENTS OF REVENUE, EXPENDITURES, AND CHANGES IN FUND
BALANCE - GOVERNMENTAL FUNDS**

For the Years Ended September 30, 2008 and 2007

	Operating Fund	
	2008	2007
Revenue:		
Contracts and grants (Note F)	\$ 2,350,807	\$ 1,766,171
Administrative revenue (Note B)	168,000	168,000
Project development and administration	25,000	25,000
Interest income	8,561	18,067
Miscellaneous income	6	94,312
Total Revenue	2,552,374	2,071,550
Expenditures:		
Current:		
Salaries, wages, and employee benefits	927,447	864,599
Contractual and professional services	35,535	55,592
Facility operations and maintenance	68,071	86,916
Office expenses	80,795	94,368
Site reclamation and redevelopment	558,662	521,756
Travel and automotive expenses	130,467	138,976
Conferences, dues, and subscriptions	77,743	67,587
Marketing and promotion	56,978	51,135
Interest expense	128,361	162,158
Debt service (Note D)	21,387	51,159
Capital outlay (Note C)	697,298	3,562
Total Expenditures	2,782,744	2,097,808
Excess (Deficiency) of Revenue over Expenditures	(230,370)	(26,258)
Other Financing Sources:		
Additions to note payable (Note C)	27,581	39,012
Net Increase (Decrease) in Fund Balance	(202,789)	12,754
Fund Balance, Beginning of Year	572,570	559,816
Fund Balance, End of Year	\$ 369,781	\$ 572,570

See notes to financial statements.

DETROIT/WAYNE COUNTY PORT AUTHORITY

**RECONCILIATIONS OF GOVERNMENTAL FUNDS STATEMENTS OF REVENUE,
EXPENDITURES, AND CHANGES IN FUND BALANCE TO STATEMENTS OF
ACTIVITIES**

For the Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Net Increase (Decrease) in Fund Balance, Governmental Funds	\$ (202,789)	\$ 12,754
<p>Amounts reported for governmental activities in the statements of activities differ from amounts reported in the governmental funds statements of revenue, expenditures, and changes in fund balance due to the following:</p>		
<p>Capital outlays are reported as expenditures in governmental funds. However, in the statements of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. During the years presented, these amounts are as follows:</p>		
Capital outlay	697,298	3,562
Less: Depreciation expense	(24,627)	(26,440)
<p>Certain expenses reported in the statements of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. During the years presented, these amounts are as follows:</p>		
Accrued payroll, beginning of year	66,679	52,777
Less: Accrued payroll, end of year	(73,422)	(66,679)
<p>Proceeds issued on, and other additions to, long-term debt are reported as a financing source, and repayment of, and other reductions of, long-term debt are reported as an expenditure in governmental funds, but the additions and reductions increase and decrease, respectively, long-term liabilities in the statements of net assets. During the years presented, these amounts are as follows:</p>		
Additions to note payable	(27,581)	(39,012)
Reductions to note payable	21,387	51,159
Net Increase (Decrease) in Net Assets, Governmental Activities	<u>\$ 456,945</u>	<u>\$ (11,879)</u>

See notes to financial statements.

DETROIT/WAYNE COUNTY PORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2008 and 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

Government-wide Financial Statements

The government-wide financial statements are prepared on the accrual basis of accounting using the economic resources measurement focus. Accordingly, revenue is recorded when earned and expenses are recorded when incurred. Contracts and grants provided to support program activities, as well as project development and administration fees, are classified as program revenue. Administrative, investment, and other income not directly associated with program services provided is classified as general revenue.

Fund Financial Statements

The fund financial statements are prepared on the modified accrual basis of accounting using the flow of current financial resources as a measurement focus. Under the modified accrual basis of accounting, revenue is recorded when susceptible to accrual, which is when it is both measurable and available. "Available" means collectible within the current period or soon enough thereafter (within 60 days) to be used to pay liabilities of the current period. Expenditures, other than interest on long-term debt, are recorded when the liability is incurred, if measurable. In applying the susceptible-to-accrual concept to intergovernmental revenue, the legal and contractual requirements of the numerous individual programs are used as guidance. Monies virtually unrestricted as to purpose of expenditure and revocable only for failure to comply with prescribed compliance requirements are reflected as revenue at the time of receipt, or earlier if the susceptible-to-accrual criteria are met.

Tax-Exempt Status

No provision has been established for income taxes since the Authority is exempt from income taxes under Internal Revenue Code section 501(c)(4).

Cash Deposits

State of Michigan statutes require that certificates of deposit, savings accounts, deposit accounts, and depository receipts be made with banks doing business and having a place of business in the State of Michigan that are also members of a federal or national insurance corporation.

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned to the Authority. The Authority does not have a deposit policy for custodial credit risk.

DETROIT/WAYNE COUNTY PORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2008 and 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash Deposits (continued)

As of September 30, 2008 and 2007, the Authority's carrying amount of deposits and bank balances, and the bank balances that are not covered by federal depository insurance, are as follows:

	<u>2008</u>	<u>2007</u>
Carrying amount of deposits	<u>\$ 625,225</u>	<u>\$ 472,287</u>
Total bank balances	<u>\$ 661,572</u>	<u>\$ 508,169</u>
Uninsured and uncollateralized bank balances	<u>\$ 461,532</u>	<u>\$ 405,911</u>

Capital Assets

Capital assets are recorded at historical cost. The Authority capitalizes all expenditures for furniture, fixtures, and equipment in excess of \$500. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Expenditures for maintenance and repairs are charged to expense. Renewals or betterments which extend the life or increase the value of the properties are capitalized and depreciated over the remaining useful lives of the related assets.

Compensated Absences

Vacation time is accrued in the government-wide financial statements as earned. Employees are allowed to carry over a maximum of 40 days. Upon termination, employees are entitled to their unused accumulated vacation time.

Sick time is accrued in the government-wide financial statements as earned. Employees are allowed to carry over all sick time. Upon termination, employees forfeit their unused accumulated sick time.

In the fund financial statements, only the matured liability for compensated absences is recorded. The total liability for vacation is reported in the government-wide financial statements.

Reclassifications

Certain reclassifications have been made to the 2007 financial statements to conform to classifications used in 2008.

DETROIT/WAYNE COUNTY PORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2008 and 2007

NOTE B - ADMINISTRATIVE REVENUE

The Authority provides administrative services for Greater Detroit Foreign Trade Zone, Inc. ("GDFTZ"). Total fees were \$168,000 each year for the years ended September 30, 2008 and 2007. The balance receivable from GDFTZ as of September 30, 2008 and 2007 was \$-0- and \$14,000, respectively.

NOTE C - CAPITAL ASSETS

Nondepreciable capital asset activity for the years ended September 30, 2008 and 2007 is as follows:

	<u>Land</u>	<u>Construction in Progress</u>	<u>Total</u>
Balance, October 1, 2006	\$ 3,976,940	\$ -0-	\$ 3,976,940
Balance, September 30, 2007	3,976,940	-0-	3,976,940
Acquisitions		619,441	619,441
Balance, September 30, 2008	\$ 3,976,940	\$ 619,441	\$ 4,596,381

Depreciable capital asset activity for the years ended September 30, 2008 and 2007 is as follows:

	<u>Building</u>	<u>Office Equipment</u>	<u>Furniture and Fixtures</u>	<u>Total</u>
Cost:				
Balance, October 1, 2006	\$ 826,060	\$ 40,679	\$ 58,043	\$ 924,782
Acquisitions		3,562		3,562
Balance, September 30, 2007	826,060	44,241	58,043	928,344
Acquisitions	77,857			77,857
Balance, September 30, 2008	\$ 903,917	\$ 44,241	\$ 58,043	\$ 1,006,201
Accumulated Depreciation:				
Balance, October 1, 2006	\$ 25,594	\$ 32,670	\$ 56,638	\$ 114,902
Depreciation expense	21,181	4,887	372	26,440
Balance, September 30, 2007	46,775	37,557	57,010	141,342
Depreciation expense	22,179	2,246	202	24,627
Balance, September 30, 2008	\$ 68,954	\$ 39,803	\$ 57,212	\$ 165,969

DETROIT/WAYNE COUNTY PORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2008 and 2007

NOTE C - CAPITAL ASSETS (CONTINUED)

	<u>Building</u>	<u>Office Equipment</u>	<u>Furniture and Fixtures</u>	<u>Total</u>
Net Depreciable Capital Assets:				
Balance, September 30, 2007	\$ 779,285	\$ 6,684	\$ 1,033	\$ 787,002
Balance, September 30, 2008	<u>\$ 834,963</u>	<u>\$ 4,438</u>	<u>\$ 831</u>	<u>\$ 840,232</u>

NOTE D - LONG-TERM LIABILITIES

During the year ended September 30, 2005, the Authority entered into a Master Concession Agreement with the Ambassador Port Company ("Ambassador"), which gives Ambassador the right to operate the Authority's port facilities. In connection with the Master Concession Agreement, the Authority borrowed \$2,103,000 from Ambassador. The related note agreement includes a provision for the possible advance of future amounts by Ambassador for the purpose of paying certain operating and expansion costs of the facilities associated with the Master Concession Agreement.

The note bears interest at a rate defined in the Master Concession Agreement as 300 basis points over the yield to maturity of five-year United States Treasury notes as published in a respected financial journal. The interest rate can never be less than six percent. The rates in effect as of September 30, 2008 and 2007 were 6.00 percent and 7.23 percent, respectively. Repayment of the note is based on revenue received by the Authority under relevant sections of the Master Concession Agreement.

Long-term liability activity for the years ended September 30, 2008 and 2007 is as follows:

	<u>2008</u>	<u>2007</u>
Balance, beginning of year	\$ 2,071,549	\$ 2,083,696
Additions	27,581	39,012
Less: Reductions	<u>(21,387)</u>	<u>(51,159)</u>
Balance, End of Year	<u>\$ 2,077,743</u>	<u>\$ 2,071,549</u>
Amounts due within one year	<u>\$ 126,317</u>	<u>\$ 102,099</u>

DETROIT/WAYNE COUNTY PORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2008 and 2007

NOTE D - LONG-TERM LIABILITIES (CONTINUED)

Maturities of long-term liabilities are estimated to be as follows as of September 30, 2008:

<u>For the Years Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 126,317	\$ 123,683	\$ 250,000
2010	134,187	115,813	250,000
2011	142,547	107,453	250,000
2012	151,429	98,571	250,000
2013	160,863	89,137	250,000
2014-2018	967,736	282,264	1,250,000
2019-2021	394,664	19,775	414,439
	<u>\$ 2,077,743</u>	<u>\$ 836,696</u>	<u>\$ 2,914,439</u>

The estimated maturities in the preceding schedule are based on the assumption that the effective interest rate each year will be six percent, which is equal to the effective interest rate as of September 30, 2008, and that the revenue received by the Authority under the relevant sections of the Master Concession Agreement will be \$250,000 each year. Due to the nature of these assumptions and the uncertainties inherent in setting these assumptions, it is at least reasonably possible that changes in the near term to these assumptions would be material to the preceding schedule.

NOTE E - LEASES

The Authority leases a building for office space under an operating lease. The lease has an annual renewal option, with the ability to terminate the lease at any time with six months' notice.

The following is a schedule by year of future minimum lease payments under operating leases as of September 30, 2008:

For the year ending September 30, 2009	\$ 11,000
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Rental expense under operating leases for the years ended September 30, 2008 and 2007 was \$65,762 and \$74,104, respectively.

DETROIT/WAYNE COUNTY PORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2008 and 2007

NOTE F - CONTRACTS AND GRANTS

The Authority has entered into contracts with the following governmental entities from which the Authority receives operating funds:

State of Michigan

The Authority's contract with the Michigan Department of Transportation ("MDOT") is renewed annually unless a notice to terminate is requested by either party. The amount of funding for future years under the contract will be negotiated annually.

County of Wayne

The Authority receives a line-item appropriation in the budget of the County of Wayne. The amount of funding for future years under the appropriation will be negotiated annually.

City of Detroit

The Authority's contract with the City of Detroit is renewed annually unless a notice to terminate is requested by either party. The amount of funding for future years under the contract will be negotiated annually.

The Authority has also obtained the following grants:

Federal Highway Grant

The Authority received a reimbursement grant from MDOT to construct the public dock and terminal facility on specific properties. Reimbursable costs incurred under this grant for the years ended September 30, 2008 and 2007 have been recorded as grant revenue in the accompanying financial statements.

Port Security Grant

The Authority received a \$1,024,815 reimbursement grant from the Department of Homeland Security ("DHS") for the purpose of purchasing patrol boats to protect critical port infrastructure from terrorism. The Authority provides status reports on a quarterly basis. Reimbursable costs incurred under this grant for the year ended September 30, 2008 have been recorded as grant revenue in the accompanying financial statements.

DETROIT/WAYNE COUNTY PORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2008 and 2007

NOTE F - CONTRACTS AND GRANTS (CONTINUED)

Brownfield Grant

The Authority received a \$400,000 Brownfield grant from the Environmental Protection Agency for environmental site investigations within the Port of Detroit district. The Authority provides status reports on a quarterly basis. The grant agreement was renewed on September 1, 2006, and a new grant was awarded October 1, 2006 for \$400,000. Reimbursable costs incurred under this grant for the years ended September 30, 2008 and 2007 have been recorded as grant revenue in the accompanying financial statements.

Economic Adjustment Assistance Grant

The Authority received a \$50,000 economic adjustment assistance grant from the U.S. Department of Commerce to provide funding for the development of the Authority's strategic plan. The Authority provides status reports on a quarterly basis. Reimbursable costs incurred under this grant for the year ended September 30, 2008 have been recorded as grant revenue in the accompanying financial statements.

Michigan Department of Environmental Quality Design Grant

The Authority received a \$20,040 grant from the Michigan Department of Environmental Quality ("MDEQ") to provide funding for the design and planning of the Authority's Environmental Monitoring Station and the Great Lakes Educational Center. The grant provides 50 percent of the total cost incurred for the project from January 1, 2005 through March 31, 2006.

Ambassador Port Revenue

The Authority entered into a Master Concession Agreement with Ambassador. The Authority's main purpose for entering into this agreement is to cause a dormant port facility to resume operations. The parties agreed that the Authority is to be compensated for out-of-pocket and administrative costs that the Authority incurs. According to the Master Concession Agreement, Ambassador shall pay the Authority 2.5 percent of gross receipts received in each quarter, less all outstanding interest that accrued during that quarter, any default interest due, and any interest accrued during prior quarters that was added to the principal amount of the promissory note. During the years ended September 30, 2008 and 2007, the Authority received \$121,615 and \$173,623, respectively, which was recorded as contract revenue.

DETROIT/WAYNE COUNTY PORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2008 and 2007

NOTE F - CONTRACTS AND GRANTS (CONTINUED)

Total contract and grant revenue is summarized as follows:

	<u>2008</u>	<u>2007</u>
State of Michigan	\$ 500,000	\$ 500,000
County of Wayne	315,000	250,000
City of Detroit	250,000	250,000
Federal highway grant	323,979	257,824
Port security grant	619,441	-0-
Brownfield grant	195,138	328,524
Economic adjustment assistance grant	25,634	-0-
MDEQ design grant	-0-	6,200
Ambassador port revenue	121,615	173,623
	<u>\$ 2,350,807</u>	<u>\$ 1,766,171</u>

NOTE G - RISK MANAGEMENT

Given the normal activities of the Authority and the relatively low rate of claims and lawsuits experienced in the Authority's past history, the risk involved in the Authority's operations is minimal and, in management's opinion, is sufficiently covered by insurance policies.

NOTE H - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and State of Michigan ("State") law for the operating fund. All annual appropriations lapse at the end of the fiscal year.

Expenditures in excess of amounts budgeted are a violation of State law. State law permits governmental entities to amend their budgets during the year.

DETROIT/WAYNE COUNTY PORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

September 30, 2008 and 2007

NOTE H - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

During the year ended September 30, 2008, the Authority incurred expenditures in excess of the amounts budgeted as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Contractual and professional services	\$ 34,667	\$ 35,535	\$ (868)
Office expenses	62,103	80,795	(18,692)
Site reclamation and redevelopment	-0-	558,662	(558,662)
Interest expense	-0-	128,361	(128,361)

Revenue was sufficient to cover the excess expenditures.

NOTE I - NEW ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board ("GASB") has issued Statement of Governmental Accounting Standards ("SGAS") No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations." SGAS No. 49 modifies the accounting and financial reporting for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in activities such as site assessments and cleanups. This Statement requires an entity to estimate the components of expected pollution remediation outlays upon the occurrence of one of five specified events and to determine whether outlays for these components should be accrued as a liability or, under certain circumstances, whether these outlays should be capitalized. SGAS No. 49 applies to the Authority's financial statements for the year ending September 30, 2009. The Authority's management does not anticipate the implementation of this Statement to have any impact on its financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

DETROIT/WAYNE COUNTY PORT AUTHORITY

SCHEDULES OF REVENUE AND EXPENDITURES - BUDGET AND ACTUAL - OPERATING FUND (UNAUDITED)

For the Years Ended September 30, 2008 and 2007

	2008				2007			
	Original Budget	Final Budget	Actual	Positive (Negative) Variance with Final Budget	Original Budget	Final Budget	Actual	Positive (Negative) Variance with Final Budget
Revenue:								
Contracts and grants	\$ 1,065,000	\$ 1,065,000	\$ 2,350,807	\$ 1,285,807	\$ 1,065,000	\$ 1,000,000	\$ 1,766,171	\$ 766,171
Administrative revenue	168,000	168,000	168,000	-0-	168,000	168,000	168,000	-0-
Project development and administration	25,000	25,006	25,000	(6)		25,000	25,000	-0-
Rental income				-0-	2,910	7,000		(7,000)
Interest income	5,659	8,561	8,561	-0-	5,930	2,100	18,067	15,967
Miscellaneous income			6	6			94,312	94,312
Total Revenue	1,263,659	1,266,567	2,552,374	1,285,807	1,241,840	1,202,100	2,071,550	869,450
Expenditures:								
Current:								
Salaries, wages, and employee benefits	909,605	947,369	927,447	19,922	872,670	872,670	864,599	8,071
Contractual and professional services	49,850	34,667	35,535	(868)	60,500	57,500	55,592	1,908
Facility operations and maintenance	62,660	68,071	68,071	-0-	103,485	91,300	86,916	4,384
Office expenses	63,600	62,103	80,795	(18,692)	82,590	63,200	94,368	(31,168)
Site reclamation and redevelopment			558,662	(558,662)			521,756	(521,756)
Travel and automotive expenses	74,784	130,467	130,467	-0-	60,900	60,900	138,976	(78,076)
Conferences, dues, and subscriptions	67,800	77,743	77,743	-0-	41,695	41,530	67,587	(26,057)
Marketing and promotion	35,360	56,978	56,978	-0-	20,000	15,000	51,135	(36,135)
Interest expense			128,361	(128,361)			162,158	(162,158)
Debt service			21,387	(21,387)			51,159	(51,159)
Capital outlay			697,298	(697,298)			3,562	(3,562)
Total Expenditures	1,263,659	1,377,398	2,782,744	(1,405,346)	1,241,840	1,202,100	2,097,808	(895,708)
Excess (Deficiency) of Revenue over Expenditures	-0-	(110,831)	(230,370)	(119,539)	-0-	-0-	(26,258)	(26,258)
Other Financing Sources:								
Additions to note payable			27,581	27,581			39,012	39,012
Net Increase (Decrease) in Fund Balance	\$ -0-	\$ (110,831)	\$ (202,789)	\$ (91,958)	\$ -0-	\$ -0-	\$ 12,754	\$ 12,754

See note to schedules of revenue and expenditures - budget and actual (operating fund).

DETROIT/WAYNE COUNTY PORT AUTHORITY

**NOTE TO SCHEDULES OF REVENUE AND EXPENDITURES -
BUDGET AND ACTUAL - OPERATING FUND (UNAUDITED)**

For the Years Ended September 30, 2008 and 2007

NOTE A - BUDGETS AND BUDGETARY ACCOUNTING

The Detroit/Wayne County Port Authority (the "Authority") establishes a budget that is reflected in the financial statements for the operating fund. The budget is presented on the modified accrual basis of accounting.

Budgeted amounts are as presented to and approved by the Authority's Board of Directors. No amendments to the budget were made during the year. Appropriations are authorized by the Authority's management. Unexpended appropriations lapse at the end of the fiscal year.